

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:
THIRD QUARTERLY MONITORING REPORT**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-861.3

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:
THIRD QUARTERLY MONITORING REPORT

JULY 1989



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Acting Auditor General

July 7, 1989

P-861.3

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its third quarterly report concerning the Alameda-Contra Costa Transit District's progress in implementing the recommendations from the Office of the Auditor General's report P-767 entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement." The district has improved aspects of its budgeting process, but needs to improve its budget variance reports. The report also shows the financial status of the district since fiscal year 1984-85.

We conducted this audit to comply with Chapter 1147, Statutes of 1988.

Respectfully submitted,

A handwritten signature in cursive script, reading "Kurt R. Sjoberg".

KURT R. SJOBERG
Acting Auditor General

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SUMMARY

RESULTS IN BRIEF

Since March 1988, when we released our initial report about the Alameda-Contra Costa Transit District's (district) financial and administrative controls, the district has taken steps to improve its operations. During our review for this report (our third monitoring report of the district), we noted the following conditions:

- The district has improved its budget process. The district's revised budget for fiscal year 1988-89 appears to be more accurate than budgets in the past;
- The district needs to improve its system for reporting budget variances;
- The director who owed the district for travel and personal expense overpayments has agreed to repay the district;
- The district has disseminated its policy prohibiting the use of district resources for nondistrict purposes; and
- The district has had operating deficits for three of the last five fiscal years, its expenses have increased at a rate higher than its revenues and subsidies, and its working capital and cash and investments have generally decreased.

BACKGROUND

As required by Chapter 1147, Statutes of 1988, this is our third quarterly monitoring report on the actions that the district has taken to correct deficiencies noted in the Office of the Auditor General's report entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement," Report P-767, March 1988.

The district operates over 800 buses that, as of the first 10 months of fiscal year 1988-89, provided approximately 50 million passenger trips in Alameda and Contra Costa counties and, to a lesser extent, to San Francisco and San Mateo counties. The district's revised budget for fiscal year 1988-89 shows projected revenues and subsidies of \$118.7 million and expected expenses of \$121.2 million, resulting in an estimated deficit of \$2.5 million. The district is governed by an elected board of seven directors. The board of directors appoints a general manager, who is responsible for the operations of the district.

During our March 1988 review, we found that the district had insufficient financial control over its operations. From fiscal year 1984-85 through fiscal year 1986-87, the district's expenses exceeded its revenues and subsidies, and as a result, the district incurred large deficits. In addition, the district had weak controls over the travel and personal expenses of its board of directors and officers, which resulted in some overpayments. Finally, five of the district's six full-time, salaried attorneys used district resources to conduct their private law practices.

PRINCIPAL FINDINGS

The Alameda-Contra Costa Transit District
Has Acted on Our Recommendations but Needs
To Improve Its Budget Variance Reports

Since the release of our March 1988 report about the district's operations, the district has improved its budgeting process, and, as a result, its revised budget for fiscal year 1988-89 is more accurate than past budgets. For example, for the first ten months of fiscal year 1988-89, the district's revenues and subsidies were less than one percent higher than projected, and its expenses were less than one percent over budget.

Despite its improved budgeting process, the district needs to correct its system for reporting budget variances. Variance reports

compare the district's actual revenues, subsidies, and expenses with the district's budgeted amounts, showing budget variances. In reviewing the district's December 1988 and March 1989 variance reports, we determined that the March 1989 report did not accurately show the district's expenses. When variance reports are not accurate, they are not a useful management tool for monitoring budget performance.

During our review, we also noted that the last of the directors who had received overpayments in travel and personal expenses has requested that the district deduct the overpayments from her director fees starting in May 1989. Finally, the district has informed all employees of the district's policy prohibiting employees from using district resources for nondistrict purposes.

A Review of the Alameda-Contra Costa
Transit District's Financial Status
Since Fiscal Year 1984-85

The district continues to experience operating deficits. Including the projected \$2.5 million deficit for fiscal year 1988-89, the district's expenses have exceeded revenues and subsidies in three of the last five fiscal years. We found that the district's expenses have generally increased since fiscal year 1984-85, except for a slight decrease projected for fiscal year 1988-89. However, the rate of increase has diminished over this period, reflecting a decrease in growth of expenses. The district's revenues and subsidies have followed a similar pattern. Also, in our review of these revenues and subsidies, we found that, since fiscal year 1984-85, the district's total income from revenues and subsidies has increased, but its revenue from passenger fares has decreased slightly. Finally, the district's working capital, including cash and investments, has generally decreased since June 30, 1984.

Although the district continues to have a budget deficit, its \$19.1 million in working capital as of March 31, 1989, appears

sufficient to fund the deficit for fiscal year 1988-89, provided that the district continues to better plan and control expenses and has no unforeseen expenses.

RECOMMENDATIONS

To improve the accuracy and usefulness of its monthly variance reports, the Alameda-Contra Costa Transit District should accurately prepare and ensure the review of variance reports. To improve its financial condition, the district should implement its goal of developing a balanced or surplus budget for fiscal year 1989-90, and continue its efforts to control expenses and increase revenues and subsidies.

AGENCY COMMENTS

The Alameda-Contra Costa Transit District agrees with our findings and is acting on our recommendations.

INTRODUCTION

As required by Chapter 1147, Statutes of 1988, this is our third quarterly monitoring report on the actions that the Alameda-Contra Costa Transit District (district) has taken to correct deficiencies noted in the Office of the Auditor General's report entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement," Report P-767, March 1988.

The district operates over 800 buses that, in the first ten months of fiscal year 1988-89, provided approximately 50 million passenger trips in Alameda and Contra Costa counties and, to a lesser extent, to San Francisco and San Mateo counties. The district, which has headquarters in Oakland, has over 2,000 employees. With the initial operating budget for fiscal year 1988-89 showing anticipated revenues of \$118.6 million and expenses of \$120.6 million, the district expected an estimated deficit of \$2 million. In January 1989, the district's general manager submitted to the board of directors a revised version of the original operating budget, which had been modified based on changes in the district's revenues and expenses during the first five months of the fiscal year. The revised operating budget for fiscal year 1988-89 shows projected revenues and subsidies totaling \$118.7 million and expenses totaling \$121.2 million, yielding a deficit of \$2.5 million. (Appendix A shows a comparison between the original operating budget for fiscal year 1988-89 and the January 1989 revision of this budget.)

As specified in the California Public Utilities Code, the district is governed by a board of directors that supervises and regulates every transit facility owned and operated by the district. The board of directors is also responsible for administering the district's affairs and approving the district's budget. The voters of Alameda and Contra Costa counties elect the board's seven directors, who serve four-year terms. The board of directors appoints the officers of the district: a general manager, who is responsible for the operations of the district; a secretary; and an attorney.

During our initial review, the results of which we released in March 1988, we found that the district had insufficient financial control over its operations. Specifically, from fiscal year 1984-85 through fiscal year 1986-87, the district's expenses had exceeded its revenues, and as a result, the district incurred large deficits. We also found that the district had weak controls over the travel and personal expenses of its board of directors and officers, which resulted in some overpayments. Finally, five of the district's six full-time, salaried attorneys used district resources to conduct their private law practices.

As a result of our review, the Legislature enacted Chapter 1147, Statutes of 1988, requiring the Office of the Auditor General to monitor the progress of the district in correcting the deficiencies identified in our March 1988 report. The Office of the Auditor General is required to issue quarterly reports through July 1, 1990.

The first quarterly monitoring report, entitled "Alameda-Contra Costa Transit District: First Quarterly Monitoring Report," Report P-861.1, was issued on January 5, 1989. In this report, we describe the district's efforts towards implementing the recommendations from our March 1988 report. We note that the district had taken steps to improve its operations but that it still had a budget deficit. In addition, we noted that the district had not added the recommended attestation statement to its expense report and it had not recovered overpayments made to one director.

In our second report entitled "Alameda-Contra Costa Transit District: Second Quarterly Monitoring Report," Report P-861.2, issued April 6, 1989, we noted that the district had developed a budget for fiscal year 1988-89 that is better documented and contains what should prove to be more reliable estimates of revenues, subsidies, and expenses. In addition, we reported that the district's general manager had, in January 1989, revised the district's budget for fiscal year 1988-89, projecting that the district would have a \$2.5 million deficit. We also determined that the district had substantially complied with its rules and policies for the travel and personal expenses of its directors, officers, and employees. Further, we found that the district's attorneys appeared to be adhering to the policy prohibiting them from the private practice of law while employed by the district. However, we determined that the district had not fully disseminated its policy that prohibits employees from using district resources for nondistrict purposes.

SCOPE AND METHODOLOGY

The purpose of this review was to monitor the progress the district has made in implementing the recommendations of our initial report and to follow-up on those problems we identified in our first and second quarterly monitoring reports.

For this report, we continued our review of how the district prepares and monitors its operating budget. Since we had found the district's process for preparing its fiscal year 1988-89 budget satisfactory, we reviewed the preparation of its fiscal year 1989-90 budget to determine whether it had used a similar process. To gauge the accuracy of its budget projections, we reviewed the district's budget performance for the first ten months of fiscal year 1988-89. We also tested the district's budget variance reporting system, reviewing the accuracy of the variance reports for the months of December 1988 and March 1989 to determine if they accurately reflected expense information and correctly showed budget variances. We did not verify the accuracy of the accounting department's entry of expense data used in the preparation of the variance reports, and we did not test the adequacy of the accounting department's controls over its automated data processing system.

During our third monitoring review, we examined the district's financial status for fiscal years 1984-85 through the the first ten months of fiscal year 1988-89. We analyzed the district's revenues,

subsidies, expenses, operating deficits or surpluses, cash and investments, and working capital for each of those fiscal years. Furthermore, we reviewed the status of the district's budget for fiscal year 1989-90. We did not review the district's preparation of its capital budget.

During this review, we also determined whether the director of Ward V had submitted a repayment plan to repay her overpayments, and whether the district had disseminated its policy prohibiting employees from using district resources for nondistrict purposes, as we had previously recommended. For those areas that we have tested and found the district to be in compliance, we will not conduct any further audit work until our April 1990 monitoring report.

AUDIT RESULTS

I

THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT HAS ACTED ON OUR RECOMMENDATIONS BUT NEEDS TO IMPROVE ITS BUDGET VARIANCE REPORTS

Since the release of our March 1988 report about the Alameda-Contra Costa Transit District's (district) operations, the district has improved its budgeting process, and its revised budget for fiscal year 1988-89 appears to be accurate. For the first ten months of fiscal year 1988-89, the district's revenues and subsidies were less than one percent higher than projected, and its expenses were less than one percent over budget. Also, it appears that the district's final deficit for fiscal year 1988-89 will be approximately \$2.4 million, just under the district's projection. Despite the improvements in its budget process, the district needs to correct its system for reporting budget variances. In reviewing the district's December 1988 and March 1989 variance reports, we determined that the March 1989 report did not accurately show the district's expenses. When variance reports are not accurate, managers may have difficulty accurately reviewing and correcting the budget performance of a unit. In our review of the district's control over travel and personal expenses, we found that the last of the directors who had received overpayments in travel and personal expenses has requested that the district deduct the overpayments from her monthly director fees starting in May 1989. Finally, the district has informed its employees of its policy prohibiting employees from using district resources for nondistrict purposes.

THE DISTRICT HAS ACTED ON BUDGETING
RECOMMENDATIONS BUT NEEDS TO IMPROVE
ITS SYSTEM FOR MONITORING BUDGET VARIANCES

In our March 1988 report, we reported that the district had insufficient controls over its financial operations, with weaknesses in its budgeting process contributing to its financial difficulties. For example, we found that the district generally overestimated its revenues and always underestimated its expenses. Furthermore, the district's monthly budget variance reports contained errors and were not submitted promptly to the board of directors.

To ensure that the district resolved its fiscal problems, we recommended that the district develop well-documented and reliable budget estimates; develop and promptly submit to the board of directors accurate variance reports; and balance its budget by increasing its revenues, decreasing its expenses, or both. Chapter Two discusses more fully how the district has increased revenues and decreased expenses in an effort to balance its budget.

The District's Budgeting Has Improved

In our second monitoring report, we found that the district's estimates of revenues, subsidies, and expenses were based on reasonable assumptions and should be more reliable than they were in the past. To determine whether the district's budget estimates in fact were reliable, we compared the district's financial statement for the first

ten months of fiscal year 1988-89 with its revised budget. According to data in those statements, the district has a deficit of \$2 million. Using the district's first 10 months of data and assuming that the last 2 months of the fiscal year do not significantly differ, we project that the district's deficit through the end of the fiscal year should be just over \$2.4 million, which, when contrasted with the district's projected \$2.5 million deficit contained in the district's revised budget, shows that the district's deficit projection appears reasonable.

As further evidence that the district's budget projections are more accurate for the first ten months of fiscal year 1988-89, the district's revenues and subsidies were less than one percent higher than projected, and expenses were less than one percent over budget. Variances in expense line items were due to factors such as the difficulty in projecting when employees would take time-off, the costs of health and welfare plan renewals exceeding budget forecasts, and changes in the cost of fuel. Appendix B shows a comparison of the district's actual revenues, subsidies, and expenses with the budget for the ten months ended April 30, 1989.

When we concluded our fieldwork on May 26, 1989, the district had not completed its operating budget for fiscal year 1989-90, so we could not review its completed budget. Nevertheless, we reviewed the district's process for preparing this budget. This process was similar to the process used for developing the budget for fiscal year 1988-89,

a process we examined during our previous monitoring review and found to be documented and based on reasonable assumptions.

For the preparation of the fiscal year 1989-90 budget, the district has set a goal of developing a balanced budget. The district's objectives also include maintaining its current number of service hours, implementing its five-year comprehensive service plan, increasing revenues and subsidies, limiting expenses, and implementing a multi-year strategy to rebuild the district's financial reserves.

The District Needs To Improve Its Budget Variance Reports

The district has two sets of budget variance reports, which are comparisons of the district's actual revenues, subsidies, and expenses with the district's budgeted amounts, showing the differences. One type of report shows actual expenses compared with the budget for the whole district and is prepared by the district's accounting department as part of the district's monthly financial statements. This type of report is sent to the district's board of directors. The district's budget office prepares the second type of variance report, which compares the actual expenses with the budget for each of the district's departments and units and is based on data provided by the accounting department. These reports are sent to each of the district's departments and are supposed to be used by department and unit managers to monitor expenses and to track budget performance.

We reviewed the districtwide variance reports prepared monthly by the accounting staff to determine whether the variance reports were being sent to the board of directors promptly. As we reported in our March 1988 report, the board of directors had not received all variance reports, and sometimes the board did not receive reports for up to 11 weeks after the end of the month. However, since September 1988, the board appears to be receiving these reports more quickly, usually 3 weeks after the end of the previous month.

We reviewed the accuracy of the variance reports prepared by the district's budget office and determined that these reports are not always reliable. We obtained the district's December 1988 and March 1989 "Expenditure Detail by Organization," generated as part of the district's accounting records, and compared the expenses shown in this report with the budget office's variance reports for each department and unit. While we found some errors in the district's December report, we found numerous errors in the March report. Several of the errors significantly changed the calculation of the unit's budget variance. For example, the March variance report for the district's human resources unit showed that actual expenses for supplies through March totaled \$16,615, or 58 percent below the budgeted amount of \$39,915. In contrast, the accounting department's expense data showed that the actual expenses for supplies were \$33,565, which is only 16 percent below budget.

In another case, the March variance report showed that the total actual expenses through March 1989 for services in the general manager's office were \$246,490, or 44 percent below the budgeted amount of \$436,672. However, the district's accounting records showed that the actual expenses were \$296,490, which is \$50,000 higher, changing the budget variance to 32 percent below the budgeted amount.

While managers do receive expense data from the accounting department in addition to the budget office's variance reports, the information from the accounting department is not in the same format as the managers' budgets and is more difficult to use. The monthly variance reports should be a valuable management tool for monitoring whether the district is staying within its budget. However, when budget variance reports contain incorrect expense information, managers may have difficulty accurately monitoring their units' budget performance.

According to budget office staff, the errors in the variance reports occurred when the budget office staff manually entered accounting data into automated spreadsheets. However, the district has no written procedures for preparing or reviewing variance reports. According to the district's chief financial officer, based on the results of our review, the district plans to improve its system for using accounting data, and it plans to develop review procedures.

THE DISTRICT HAS ACTED ON
RECOMMENDATIONS FOR CONTROLLING
TRAVEL AND PERSONAL EXPENSES

In our March 1988 report, we noted that the district had weak controls over the travel and personal expenses of its board of directors and officers. We found that the district had failed to comply with board policy and sound internal accounting controls and may have violated state law in paying some expenses for directors and officers in 1986 and 1987. To correct these problems, we recommended that the district improve its travel and personal expense policies, require that the policies be adhered to, and recover overpayments made to the directors. As we stated in our previous monitoring reports, the district has addressed our recommendations. Specifically, it has revised its rules governing travel and personal expenses and is in substantial compliance with those rules.

As we noted in our first monitoring report, the district billed each director who received an overpayment, and all but one director has repaid the district. As a result of this report, the district sent the director a second bill. On May 9, 1989, the director requested that the district withhold her monthly meeting compensation (which averages \$500 monthly), effective May 1989, for each month until the \$2,350.28 is repaid.

THE DISTRICT HAS DISSEMINATED ITS POLICY CONCERNING OUTSIDE EMPLOYMENT

In our March 1988 report, we reported that, although not authorized by the district's board of directors, five of the six full-time, salaried attorneys employed by the district during calendar year 1985 through calendar year 1987 used district resources, including staff, equipment, and facilities, to conduct their private law practices. To correct these problems, we recommended that the district develop and disseminate a policy prohibiting district employees from using district resources for nondistrict business. The district has developed and disseminated this policy.

CONCLUSION

The Alameda-Contra Costa Transit District has improved its budget process, and its revised budget for fiscal year 1988-89 appears to be more accurate than budgets for past years. As evidence that the district's budget projections are more accurate, for the first ten months of fiscal year 1988-89, the district's revenues and subsidies were less than one percent higher than projected and expenses were less than one percent over budget. In addition, according to our estimate, the district's final deficit for fiscal year 1988-89 will be approximately \$2.4 million, just under the district's projection. Despite this improvement, the district still needs to improve its system for reporting budget variances.

In reviewing the district's December 1988 and March 1989 variance reports, we determined that the March 1989 report did not accurately show the district's expenses. Also, in our monitoring review of the district's control over travel and personal expenses, we found that the remaining director who has not repaid \$2,350.28 that she owes to the district has requested that the district withhold her monthly meeting compensation until the overpayment is repaid. Finally, the district has informed its employees of its policy prohibiting the use of district resources for nondistrict purposes.

RECOMMENDATIONS

To improve the accuracy and usefulness of its monthly variance reports, the Alameda-Contra Costa Transit District should accurately prepare and ensure the review of variance reports. Furthermore, the district should continue to develop documented estimates of revenues, subsidies, and expenses for future budgets and ensure that those estimates are reliable.

II

A REVIEW OF THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT'S FINANCIAL STATUS SINCE FISCAL YEAR 1984-85

The Alameda-Contra Costa Transit District (district) continues to experience operating deficits. Including the projected \$2.5 million deficit for fiscal year 1988-89, the district's expenses have exceeded its revenues and subsidies in three of the last five fiscal years. During our review of the district's financial status, we found that the district's expenses have increased from fiscal year 1984-85 through fiscal year 1987-88, except for a slight decrease projected for fiscal year 1988-89. However, the rate of increase has diminished throughout that period. The fluctuations in the district's revenues and subsidies have followed a similar pattern. Although these revenues and subsidies have generally increased since fiscal year 1984-85, they have not grown at the same pace because the revenue from passenger fares has decreased. We also found that the district's working capital, including cash and investments, has generally decreased since June 30, 1984. However, the district's average \$19.1 million in working capital as of March 31, 1989, appears sufficient to fund the budget deficit for fiscal year 1988-89, provided that the district continues to better plan and control expenses and that it has no unforeseen expenses.

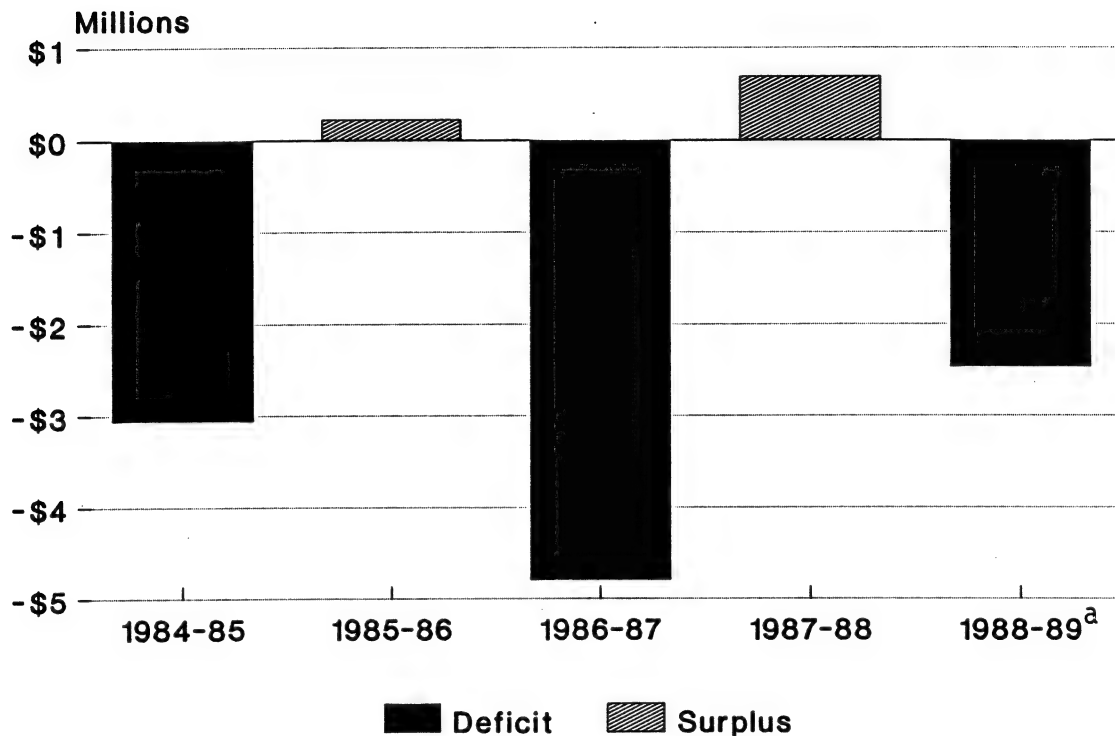
THE STATUS OF THE DISTRICT'S OPERATING
BUDGETS SINCE FISCAL YEAR 1984-85

Including the projected deficit for fiscal year 1988-89, the district has had operating deficits in three of the last five fiscal years. In fiscal years 1985-86 and 1987-88, the district had operating surpluses¹. Chart 1 shows the extent of the district's actual operating deficits and surpluses for fiscal year 1984-85 through fiscal year 1987-88 and the projected deficit for fiscal year 1988-89. As the chart shows, the district's operating deficits have fluctuated from a high of \$4.8 million in fiscal year 1986-87 to a projected low of \$2.5 million in fiscal year 1988-89.

¹When its expenses exceed its revenues and subsidies, the district has a deficit; when its revenues and subsidies exceed its expenses, the district has a surplus. The calculations of the district's operating deficits and surpluses do not include expenses for depreciation and amortization.

CHART 1

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
OPERATING DEFICITS AND SURPLUSES
FISCAL YEARS 1984-85 THROUGH 1988-89**



Source: Reports of the district's certified public accountants and Alameda-Contra Costa Transit District Financial Statements.

^a Projected for fiscal year 1988-89.

In our initial report issued in March 1988, we identified that poor fiscal controls contributed to the budget deficits for fiscal year 1984-85 through fiscal year 1986-87. In that report we also cited the district's estimate, based on data through February 1988, that it would have an operating deficit of approximately \$7.1 million. However, according to a supplementary schedule in the district's audited

financial statements, the independent auditor did not include in the calculation of the district's financial status the nonrecurring expense of \$7.8 million for an early retirement plan for district employees. As a result, the district had a \$685,000 operating surplus for fiscal year 1987-88.

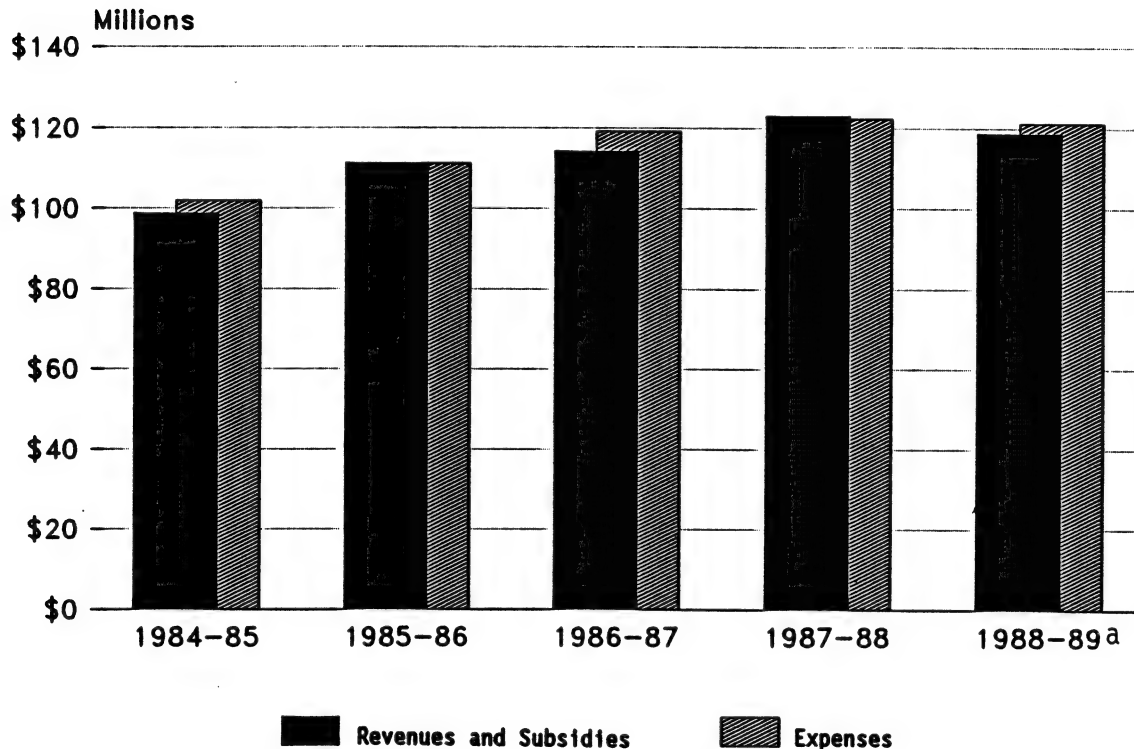
The district implemented its early retirement plan to reduce wage and salary expenses. District management stated that future payroll savings resulting from the early retirement plan will exceed the \$7.8 million expense incurred in fiscal year 1987-88. We noted in our initial audit that the district had more staff than it had budgeted for and that this overstaffing was a contributing factor to the district's deficits.

In fiscal year 1988-89, even though the district had taken steps to improve its budgeting process, it did not succeed in developing a balanced budget. The district's original budget for fiscal year 1988-89, prepared by an interim general manager, showed a \$2.0 million deficit. In January 1989, the district's new general manager presented a forecast, based on five months of actual data and events after the budget adoption, showing a deficit of approximately \$5.9 million. According to the general manager's revised budget, management's actions to control expenses are expected to reduce the projected deficit of \$5.9 million to \$2.5 million.

THE DISTRICT'S TRENDS IN REVENUES,
SUBSIDIES, AND EXPENSES

Chart 2 shows the district's trend in revenues and subsidies versus its trend in expenses. Revenues include fares collected from passengers (farebox revenue) and interest income. Subsidies are funds provided by federal, state, and local agencies. Expenses are the costs of operating the district and include items such as wages, fringe benefits, and fuel.

CHART 2
ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF REVENUES AND SUBSIDIES WITH EXPENSES
FISCAL YEARS 1984-85 THROUGH 1988-89



Source: Reports of the district's certified public accountants and Alameda-Contra Costa Transit District Financial Statements.

^a Projected for fiscal year 1988-89.

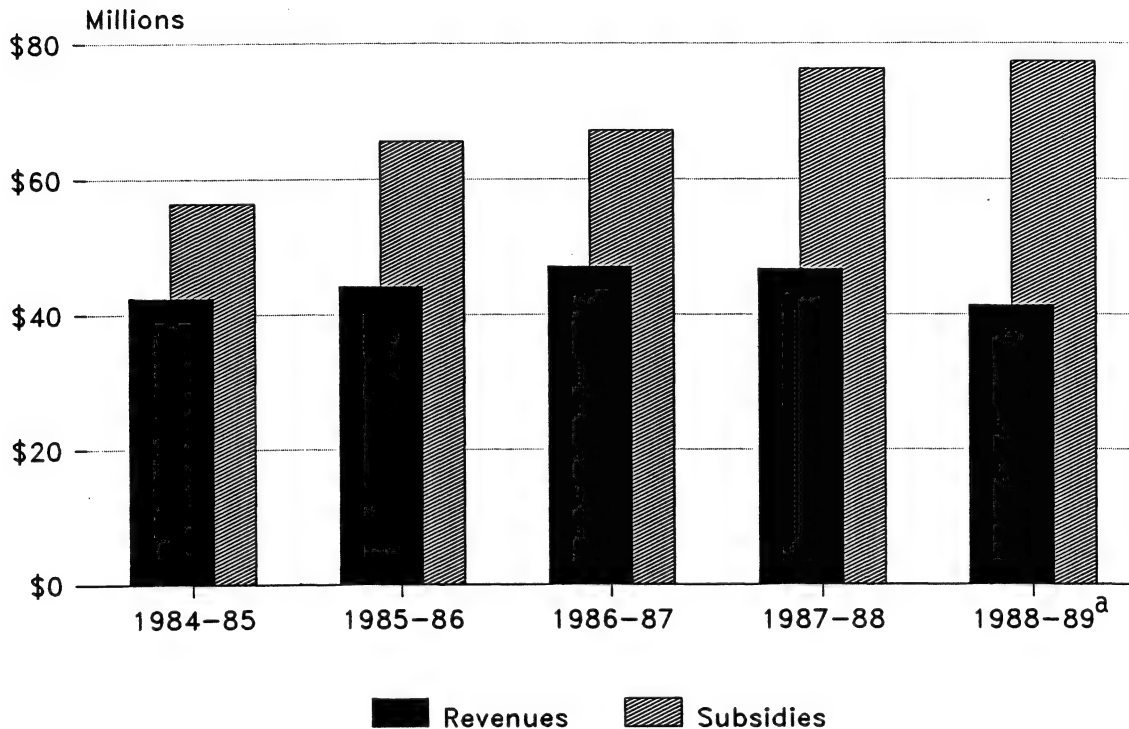
As Chart 2 shows, the district's expenses have increased from fiscal year 1984-85 to fiscal year 1987-88; however, they are projected to decrease slightly--by .9 percent--in fiscal year 1988-89. Although the trend in the district's expenses from fiscal year 1984-85 reflects an increase, the rate of increase is diminishing, indicating a reduction in the overall growth of expenses. The rate of increase slowed from 9.1 percent between fiscal years 1984-85 and 1985-86 to

2.7 percent between fiscal years 1986-87 and 1987-88. The district's revenues and subsidies have followed a similar pattern. The trend in total revenues and subsidies from fiscal year 1984-85 to fiscal year 1987-88 has shown an increase, followed by a projected decrease of 3.5 percent for fiscal year 1988-89. However, as with expenses, the rate of the increase has diminished, reflecting a decrease in the overall growth of revenues and subsidies. The district's revenues and subsidies increased from 12.7 percent between fiscal years 1984-85 and 1985-86 to 7.6 percent between fiscal years 1986-87 and 1987-88.

As Chart 3 shows, the district's revenues have not grown at the same pace as its subsidies. Revenues have not grown because overall farebox revenues have decreased slightly from \$30.7 million in fiscal year 1984-85 to a projected \$29.2 million in fiscal year 1988-89.

CHART 3

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF REVENUES AND SUBSIDIES
FISCAL YEARS 1984-85 THROUGH 1988-89**



Source: Reports of the district's certified public accountants and Alameda-Contra Costa Transit District Financial Statements.

^a Projected for fiscal year 1988-89.

In fiscal year 1984-85, the district received 57 percent of its income from subsidies and 43 percent from revenues, of which fares from passengers constituted 31 percent of all income. In contrast, the district projects that, in fiscal year 1988-89, subsidies will make up 65 percent of its income and revenues will have declined to 35 percent. This projection shows revenues from passenger fares decreasing to only 25 percent of the district's total income.

The district's subsidies have increased, in part, because of the district's receipt of Measure B funds. In our initial report, we noted that, to balance its budget, the district must increase its income, reduce its expenses, or both. We recommended that the district negotiate an agreement so that the district could receive its share of Measure B funds. Measure B authorizes the Alameda County Transportation Authority to impose a one-half of one percent retail transactions and use tax throughout the county for 15 years, a tax designated to improve, construct, maintain, and operate certain transportation projects in Alameda County. In fiscal year 1987-88, the district received \$5.95 million in Measure B funds, nearly 5 percent of the district's total revenue and subsidies. In the first ten months of fiscal year 1988-89, the district received \$5.0 million in Measure B funds, or 5 percent of its total revenue and subsidies for this period.

The district's expenses have increased for a variety of reasons, including inflation and inadequate fiscal and administrative controls, as cited in our report of March 1988. Another significant problem has been employee absenteeism. In our first monitoring report, we noted that, according to a management consultant employed by the district, the rate of unscheduled employee absences, such as sick leave and unexcused absences, costs the district an estimated \$9 million a year. In his memorandum to district directors and managers concerning the development of the budget for fiscal year 1989-90, the general manager noted that this problem continues to be a concern.

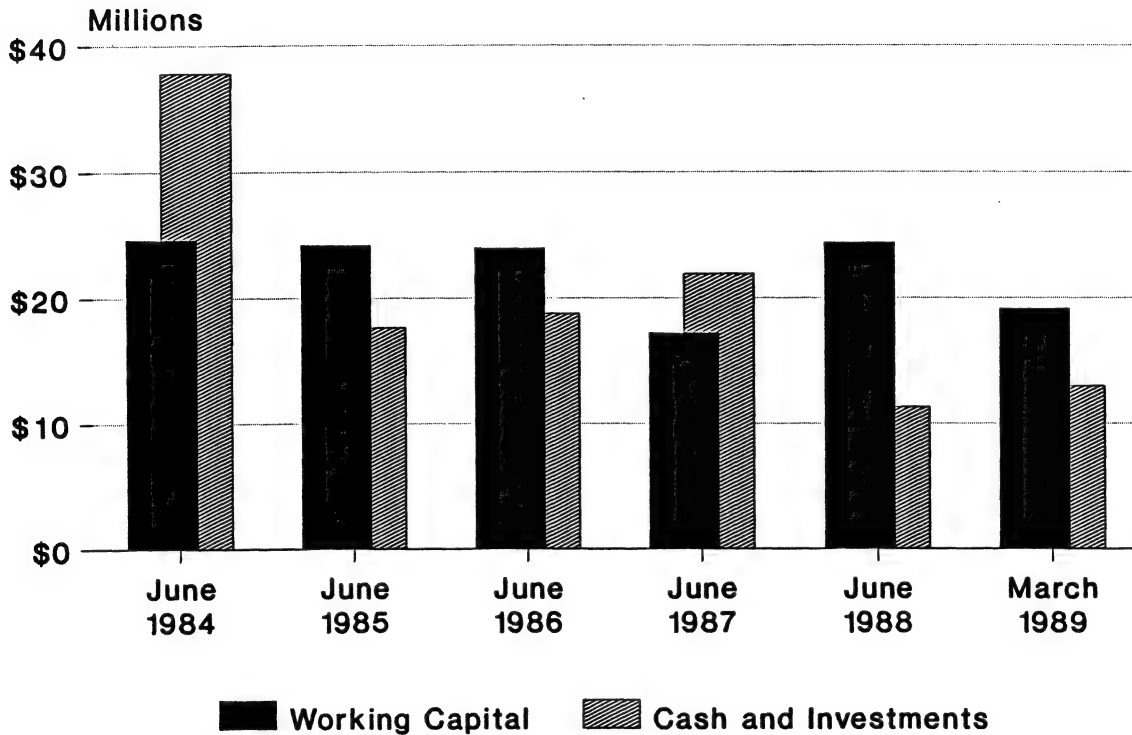
For fiscal year 1988-89, the district has set a goal of balancing its budget. To accomplish this, the district plans to implement a "comprehensive service plan" that will change many of the district's bus routes to make them more efficient. Furthermore, the general manager proposes that the district adopt a revenue policy to increase farebox revenues and develop new sources for subsidies.

THE DISTRICT'S TRENDS IN WORKING CAPITAL AND CASH AND INVESTMENTS

The district has funded its deficits with its working capital, which is the district's current assets minus its current liabilities and includes its cash and investments. The district's cash and investments can be greater than its working capital when the district has incurred large liabilities. Chart 4 shows that the district's working capital and cash and investments have generally decreased since fiscal year 1984-85.

CHART 4

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF WORKING CAPITAL AND
CASH AND INVESTMENTS
JUNE 30, 1984 THROUGH MARCH 31, 1989**



Source: Reports of the district's certified public accountants and Alameda-Contra Costa Transit District Financial Statements.

As the chart shows, the district's working capital was at \$24.6 million on June 30, 1984, and has decreased 22 percent to \$19.1 million on March 31, 1989. The district's cash and investments declined 66 percent, from \$37.8 million on June 30, 1984, to \$12.9 million on March 31, 1989.

Although the district's working capital has declined, its \$19.1 million in working capital as of March 31, 1989, appears sufficient to fund the budget deficit for fiscal year 1988-89, provided that the district continues to better plan and control expenses and that it has no unforeseen expenses.

CONCLUSION

The district continues to experience budget deficits. Including the projected \$2.5 million deficit for fiscal year 1988-89, the district has had deficits in three of the last five fiscal years. We noted in our review that the district's expenses have increased from fiscal year 1984-85 through 1987-88, except for a slight decrease projected for fiscal year 1988-89. However, the rate of increase has diminished over that time. The district's revenues and subsidies have followed a similar pattern. In addition, we found that since fiscal year 1984-85, the district's total income from revenues and subsidies has increased, but the percentage of revenue from passenger fares has decreased. Finally, the district's working capital, including cash and investments, has generally decreased since fiscal year 1984-85. However, the district's \$19.1 million in working capital as of March 31, 1989, appears sufficient to fund the budget deficit for fiscal year 1988-89.

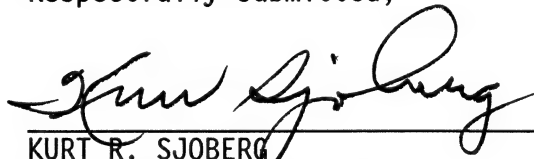
RECOMMENDATIONS

To improve its financial condition, the Alameda-Contra Costa Transit District should take the following actions:

- Implement its goal of developing a balanced or surplus budget for fiscal year 1989-90; and
- Continue its efforts to control expenses and increase revenues and subsidies.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


KURT R. SJOBERG
Acting Auditor General

Date: June 30, 1989

Staff: Samuel D. Cochran, Audit Manager
Clifton John Curry

APPENDIX A

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF THE ORIGINAL BUDGET
FOR FISCAL YEAR 1988-89 WITH THE
JANUARY 1989 REVISION OF THE BUDGET
(Unaudited)

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Difference Between Revised and Original Budget</u>	<u>Percent Increase (Decrease)</u>
<u>REVENUE</u>				
Farebox	\$ 30,038,493	\$ 29,226,952	\$ (811,541)	(2.7)%
Other transfer fares	126,045	96,349	(29,696)	(23.6)
BART transfers	6,043,440	6,154,800	111,360	1.8
Contract service	3,535,594	3,736,947	201,353	5.7
Advertising	580,000	580,000	0	0.0
Interest income	800,000	801,324	1,324	0.2
Other income	<u>888,438</u>	<u>767,565</u>	<u>(120,873)</u>	<u>(13.6)</u>
Total Operating Revenues	<u>42,012,010</u>	<u>41,363,937</u>	<u>(648,073)</u>	<u>(1.5)</u>
<u>SUBSIDIES</u>				
Property taxes	20,247,000	20,247,000	0	0.0
State Transit Assistance	113,158	113,158	0	0.0
Sales tax (AB 1107)	16,875,000	16,875,000	0	0.0
State Transit Assistance demonstration projects	26,867,270	26,867,270	0	0.0
Measure B	6,009,000	6,284,000	275,000	4.6
Federal Operating Assistance/ Section 9	6,290,000	6,827,002	537,002	8.5
Federal Operating Assistance/ Section 8	<u>160,000</u>	<u>159,998</u>	<u>(2)</u>	<u>0.0</u>
Total Subsidies	<u>76,561,428</u>	<u>77,373,428</u>	<u>812,000</u>	<u>1.1</u>
Total Revenues and Subsidies	<u>118,573,438</u>	<u>118,737,365</u>	<u>163,927</u>	<u>0.1</u>
<u>OPERATING EXPENSES</u>				
Operator wages	34,313,241	36,506,264	2,193,023	6.4
Other wages	<u>23,423,893</u>	<u>24,974,457</u>	<u>1,550,564</u>	<u>6.6</u>
Total Salary and Wages	<u>57,737,134</u>	<u>61,480,721</u>	<u>3,743,587</u>	<u>6.5</u>
Fringe benefits	32,397,836	31,795,392	(602,444)	(1.9)
Services	6,366,009	7,344,859	978,850	15.4
Fuel and oil	4,343,172	3,573,895	(769,277)	(17.7)
Other materials and supplies	10,090,240	8,077,106	(2,013,134)	(20.0)
Insurance	4,148,718	3,711,687	(437,031)	(10.5)
Leases and rentals	603,631	599,356	(4,275)	(0.7)
Other expenses	3,451,955	3,184,299	(267,656)	(7.8)
Interest expense	<u>1,434,743</u>	<u>1,434,993</u>	<u>250</u>	<u>0.0</u>
Total Operating Expense	<u>120,573,438</u>	<u>121,202,308</u>	<u>628,870</u>	<u>0.5</u>
Surplus (Deficit)	<u>\$ (2,000,000)</u>	<u>\$ (2,464,943)</u>	<u>\$ (464,943)</u>	<u>23.2</u>
Service Hours	1,958,079	1,983,155	25,076	1.3

Source: Alameda-Contra Costa Transit District, General Manager's January Revision of the Fiscal Year 1988-89 Budget and the original budget for fiscal year 1988-89.

APPENDIX B

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF ACTUAL REVENUES AND EXPENSES
WITH THE BUDGET FOR THE TEN MONTHS
ENDED APRIL 30, 1989
(Unaudited)

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under) Budget</u>	<u>Variance Percentage</u>
<u>REVENUES</u>				
Farebox	\$24,681,157	\$24,470,138	\$ 211,019	.86
Other transfer fares	36,213	61,114	(24,901)	(40.74)
BART transfers	5,129,000	5,130,825	(1,825)	(.03)
Contract service	3,730,627	3,762,811	(32,184)	(.85)
Advertising	489,253	482,530	6,723	1.39
Interest income	830,505	680,208	150,297	22.09
Other income	<u>215,567</u>	<u>227,365</u>	<u>(11,798)</u>	<u>(5.18)</u>
Total Revenues	<u>35,112,322</u>	<u>34,814,991</u>	<u>297,331</u>	.85
<u>SUBSIDIES</u>				
Property taxes	16,872,500	16,872,500	0	.00
State Transit Assistance	95,780	89,840	5,940	6.61
State Transit Assistance demonstration projects	123,578	276,761	(153,183)	(55.34)
Sales tax (AB 1107)	14,062,500	14,062,500	0	.00
Sales tax transportation development act	22,389,390	22,389,390	0	.00
Federal Operating Assistance Section 9	5,689,533	5,689,481	52	.00
Federal Operating Assistance Section 8	133,330	133,330	0	.00
Measure B	<u>5,007,500</u>	<u>5,007,500</u>	<u>0</u>	<u>.00</u>
Total Subsidies	<u>64,374,111</u>	<u>64,521,302</u>	<u>(147,191)</u>	<u>(0.22)</u>
TOTAL REVENUES AND SUBSIDIES	<u>\$99,486,433</u>	<u>\$99,336,293</u>	<u>\$ 150,140</u>	.15
<u>EXPENSES</u>				
Operator wages	30,696,065	30,814,870	(118,805)	(.38)
Other wages	20,406,369	20,573,044	(166,675)	(.81)
Fringe benefits	27,768,928	26,910,626	858,302	3.18
Services	4,958,745	5,625,257	(666,512)	(11.84)
Fuel and oil	2,971,274	2,874,024	97,250	3.38
Other materials and supplies	6,915,067	6,766,623	148,444	2.19
Insurance	3,045,855	3,063,789	(17,934)	(.58)
Leases and rentals	466,419	449,746	16,673	3.70
Other expenses	3,045,150	2,580,500	464,650	18.00
Interest expense	<u>1,217,775</u>	<u>1,195,889</u>	<u>21,886</u>	<u>1.83</u>
TOTAL EXPENSES	<u>101,491,647</u>	<u>100,854,368</u>	<u>637,279</u>	.63
SURPLUS (DEFICIT)	<u>\$ (2,005,214)</u>	<u>\$ (1,518,075)</u>	<u>\$ (487,139)</u>	<u>(32.08)</u>

Source: Alameda-Contra Costa Transit District, Financial Statement for the Ten Months Ended April 30, 1988.

ALICE H. CREASON
President of the
Board of Directors

June 23, 1989

Mr. Kurt Sjoberg
Acting Auditor General of California
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

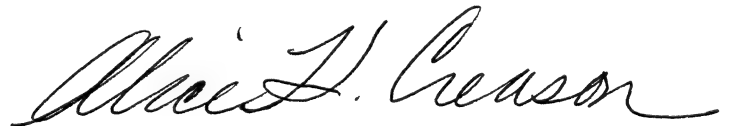
Thank you for the opportunity to respond to your "Alameda-Contra Costa Transit District: Third Quarterly Monitoring Report." As you acknowledge in your report AC Transit continues to take steps to improve its operations.

Of particular interest to you should be the Board's conscientious effort in recent weeks to carefully scrutinize the FY 89-90 Budget proposal. Our goal is to balance the budget and increase the District's reserves. Our Board is also planning to adopt budget controls and fiscal policies to further ensure that approved budgets are monitored and adhered to with in specified limits.

The Board is eager to once more return the District to financial stability. The staff likewise is responding to concerns by providing additional information to the Board and implementing management procedures regarding expenditures.

Many tasks remain to be done, but we are steadily progressing towards our goals.

Sincerely,



Alice H. Creason
President

AC/bd

JAMES L. O'SULLIVAN
General Manager

June 29, 1989

Mr. Kurt Sjoberg
Acting Auditor General of California
660 J Street, Suite 300
Sacramento, California 95814

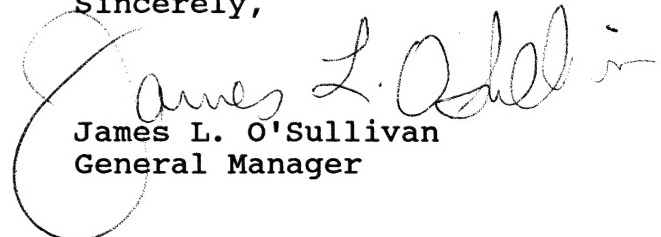
Dear Mr. Sjoberg:

We are pleased to note that the Office of the Auditor General has recognized the District's improvement in its operations. We concur with the Auditor General's findings and recommendations and have taken the following steps to continue improving its financial condition and to implement the Auditor General's recommendations:

- The District has recovered \$1,000 of the overpayment to one of its directors and expects to fully recover the remaining amount by September, 1989.
- The District has instituted a review system to identify transcription errors in its variance reports, and plans in the future to directly use computerized accounting data for its variance reports to eliminate the potential for manual transcription errors.
- Finally, the District has submitted a balanced budget for Fiscal Year 1989-90 to its Board of Directors. The District will continue its efforts to improve its operations.

Provided in the attachment are detailed responses and actions the District will take to continue improving its operations and to provide essential transportation services for the people of the East Bay.

Sincerely,



James L. O'Sullivan
General Manager

/nlc
Attachment
(2) AUDGEN.NH

ATTACHMENT

AUDITOR GENERAL RECOMMENDATIONS: Accurately prepare and ensure the review of variance reports.

AC TRANSIT RESPONSE:

Currently, the Budget Department spends 2-3 days per month manually rekeying General Ledger summary data into a Lotus spreadsheet to produce monthly variance reports. This method of producing the variance reports has been in place for approximately one year. The manual method lends itself to human error in that numbers can be easily transposed or missed. The District is currently in the process of issuing a request for proposals (RFP) for the purchase and installation of a new general ledger, payroll and budgeting system. It is anticipated that the new system will be in place in approximately 18 months.

As an interim solution, AC staff will write a program which would extract the data needed by the Budget Department from the General Ledger files and downloading the information to Budget's Personal Computer. It is estimated that this will be in place in time for the August Variance Reports.

The District will also institute a review process which will validate that data to avoid any potential errors until the downloading process is in place. This review will be done by Senior Budget staff.

AUDITOR GENERAL RECOMMENDATIONS:

- o Implement its goal of developing a balanced or surplus budget for fiscal year 1989-90.
- o Continue its efforts to control expenses and increase revenues and subsidies.

AC TRANSIT RESPONSE:

Although the District has had an operating deficit in three of the last five years, the District has taken several steps to improve its financial condition:

The District now has permanent Budget staff in place to carry out budgeting functions. The District has improved its method of forecasting revenues and expenses which better reflects actual performance.

The District has presented a proposed balanced budget to the Board of Directors for approval for fiscal year 1989-90. The proposed budget does not anticipate the use of District reserves, therefore, eliminating further erosion of reserves.

The proposed budget includes a capital budget planning process that provides an appropriate context and guidance for the District's annual capital allocations that is being initiated this year. The process establishes criteria for capital procurements and is consistent with District Goals and Objectives for FY 89-90.

Executive Management will formally adopt an MBO Program for the upcoming fiscal year which clearly reflects District philosophy, presents focused programs, yet takes into account financial resources available. Annually, thereafter, this program will be updated and/or revised to respond to changes in the organization, its environment, and its goals and objectives.

On June 28, 1989, the Board of Directors approved the award of a contract to secure the services of a financial advisor/underwriter to recommend possible financing options that could be employed to address the District's cash requirements for operations, capital and reserves.

We believe that the improvements made in budgeting and financial management will prevent further major declines in its working capital in the short term. Better planning and control over District expense should enable the District to achieve its long-term goal of rebuilding its financial reserves.

The District will aggressively pursue long-term, stable, funding sources, including working with the State Legislature and Regional and Federal agencies to identify funding opportunities.

In an effort to reduce travel time, increase travel opportunities, and improve the riding public's understanding of its routing structure, AC Transit has embarked on a major restructuring of its service in Alameda and Contra Costa Counties. This restructuring, entitled the Comprehensive Service Plan (CSP), when implemented in phases over the next five years, should lead to increased ridership and a more efficient AC Transit operation.

(2) AUDGEN.ATT

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps